

MONTANA LEGISLATIVE HISTORY

Chapter 642 19 85

Bill H _____ S 462

Original bill & history ✓c

H. Committee on Taxation

Hearing Date(s) 3-26 ✓c

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Date Out _____ c

S. Committee on Taxation
Local 600

Hearing Date(s) 3-13 _____ c

3-14 ✓c

3-15 ✓c

_____ c

Did this bill originate in an interim committee? _____ Yes _____ No

Committee _____

Report _____

SENATE BILL NO. 462

INTRODUCED BY GAGE, KEATING

IN THE SENATE

February 23, 1985	Introduced and referred to Committee on Local Government.
February 26, 1985	Fiscal Note requested. On motion taken from Committee on Local Government and rereferred to Committee on Taxation. Motion adopted.
March 4, 1985	Fiscal Note returned.
March 15, 1985	Committee recommend bill do pass as amended. Report adopted.
March 16, 1985	Bill printed and placed on members' desks.
March 19, 1985	Second reading, do pass.
March 20, 1985	Considered correctly engrossed. Third reading, passed. Ayes, 50; Noes, 0. Transmitted to House.

IN THE HOUSE

March 21, 1985	Introduced and referred to Committee on Taxation.
March 27, 1985	Committee recommend bill be concurrent in. Report adopted.
March 30, 1985	Second reading, pass consideration.
April 3, 1985	Second reading, concurred in as amended.

April 5, 1985

Third reading, concurred in.

Returned to Senate with
amendments.

IN THE SENATE

April 13, 1985

On motion, rules suspended to
accept. Motion adopted.

April 15, 1985

Received from House.

April 17, 1985

Second reading, amendments
concurred in.

April 18, 1985

Third reading, amendments
concurred in.

Ayes, 48; Noes, 0.

Sent to enrolling.

Reported correctly enrolled.

Senate BILL NO. 462

INTRODUCED BY

*Dup**Feeling*

A BILL FOR AN ACT ENTITLED: "AN ACT REVISING ALLOWABLE DEDUCTIONS IN DETERMINING OIL AND GAS NET PROCEEDS FOR PROPERTY TAX PURPOSES; DEFINING "OWNER-OPERATOR" AND "STRIPPER WELL"; ESTABLISHING STARTING POINTS FOR THE AMORTIZATION OF DRILLING COSTS AND CERTAIN CAPITAL EXPENDITURES; AMENDING SECTIONS 15-23-601, 15-23-603, AND 15-23-604, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND AN APPLICABILITY DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-23-601, MCA, is amended to read:

"15-23-601. Definitions. As used in this part, the following definitions apply:

(1) "Excise tax" means the windfall profit tax on domestic crude oil imposed by Title I of the federal Crude Oil Windfall Profit Tax Act of 1980, as enacted or as amended.

(2) The terms "operator" and "producer" mean any person who engages in the business of drilling for, extracting, or producing any natural gas, petroleum, or other crude or mineral oil.

(3) The term "owner-operator" means any person:

(a) who owns the right, in whole or in part, to search for and produce any natural gas, petroleum, or other crude or mineral oil, whether such right is derived from the ownership of the mineral estate free of lease, from an oil or gas lease, or from any other agreement conferring such right; and

(b) who actually performs supervisory, management, or operational services necessary to the extraction or production of any natural gas, petroleum, or other mineral or crude oil.

(4) The term "stripper well" means:

(a) any crude oil well from which has been produced and sold during any consecutive 12-month period beginning on or after January 1, 1973, an average of 10 barrels or less of crude oil a day, as determined from the records of the board of oil and gas conservation; or

(b) any natural gas well from which is produced and sold during any consecutive 90-day period, in accordance with recognized conservation practices and without damage to the reservoir, an average of not more than 60,000 cubic feet of nonassociated natural gas a day, as determined from the records of the board of oil and gas conservation.

(5) The term "well" includes each single well or group of wells, including dry wells, in one field or production unit and under the control of one operator or

producer. The term does not include stripper well."

Section 2. Section 15-23-603, MCA, is amended to read:

"15-23-603. Net proceeds -- how computed. (1) The department of revenue shall calculate and compute from the returns the gross sales proceeds of the product yielded from such well for the year covered by the statement and shall calculate the net proceeds of the well yielded to the producer, which net proceeds shall be determined by subtracting from the gross sales proceeds thereof the following:

(a) all royalty paid in cash by the operator or producer and the gross value of all royalty apportioned in kind by the operator or producer that shall be determined by using as the value of a barrel of oil or a cubic foot of gas the average selling price for the calendar year of a barrel of oil or a cubic foot of gas from the well out of which the royalty was paid;

(b) all ~~moneys~~ money expended for necessary ~~labor,~~ machinery, and supplies needed and used in the operation and development;

(c) ~~(i)~~ all money expended for necessary labor; and

~~(ii)~~ all money expended pursuant to a written operating agreement for supervisory, management, or operational services needed and used in the operation and development;

~~(c)(d)~~ all ~~moneys~~ money expended for improvements,

repairs, and betterments necessary in and about the working of the well;

(e) that portion of all money, including costs of insurance, expended for the acquisition and operation of any vehicle used in the operation and development of the well which bears the same ratio to all money expended for the acquisition and use of the vehicle during the year covered by the statement as the number of miles the vehicle is used in operation and development of the well during the year covered by the statement bears to the total miles the vehicle is used during the year covered by the statement;

~~(d)(f)~~ all ~~moneys~~ money expended for fire insurance and, workers' compensation insurance, liability insurance, and casualty insurance and for payments by operators to welfare and retirement funds when provided for in wage contracts between operators and employees;

(g) all money expended for any performance or indemnity bonds required by the laws of this state or the rules of any state agency, with respect to the well for which the net proceeds are being calculated;

(h) with respect to an owner-operator who maintains an office or employs clerical or office personnel and who provides supervision and management for the operation and development of one or more wells or stripper wells, which supervisory and management activity is supported by

adequate, contemporaneous records kept by the owner-operator, and whose average daily production from all wells and stripper wells in which the owner-operator owns the right to search for and produce petroleum or other crude or mineral oil or natural gas during the period covered by the statement required by 15-23-602 does not exceed 250 barrels of petroleum or mineral or crude oil or 1,500,000 cubic feet of natural gas, at the election of the owner-operator and in lieu of the deduction provided in subsection (1)(c)(ii):

(i) 10% of the gross sales proceeds allocable to each well for the year for which the net proceeds are being calculated, as an allowance for clerical, office, and supervisory and management costs directly attributable to the operation and development of the well; and

(ii) 25% of the gross sales proceeds allocable to each stripper well for the year for which the net proceeds are being calculated, as an allowance for clerical, office, and supervisory and management costs directly attributable to the operation and development of the stripper well; and

(e)(i) 70% of the amount paid or withheld in satisfaction of liability for excise taxes imposed by the U.S. government on the production, sale, or removal of the natural gas, petroleum, or other crude or mineral oil yielded from such well, other than the amount of such taxes

paid by or withheld from each royalty owner.

(2) No moneys invested in the well and improvements during any year except the year for which such statement is made may be included in such expenditures, except as provided in 15-23-604, ~~and such expenditures may not include the salaries or any portion thereof of any person or officer not actually engaged in the working of the well or superintending the management thereof.~~

Section 3. Section 15-23-604, MCA, is amended to read:

"15-23-604. Deduction of drilling costs and capital expenditures. The (1) Unless an operator or producer proceeds under subsection (2), the department of revenue in computing the deductions allowable for cost of drilling wells completed during the period and for other capital expenditures shall allow 10% of such cost each year for a period of 10 years beginning;

(a) after the 3-year exemption period allowed in 15-36-121 for qualified natural gas wells;

(b) with the year natural gas from a nonqualified natural gas well is first placed into a natural gas distribution system; or

(c) with the year the pumping unit is installed on a crude oil well, provided, however, the

(2) The operator or producer may elect to amortize the cost over a period of 2 years if the well is less than 3,000

1 feet deep."

2 NEW SECTION. Section 4. Extension of authority. Any
3 existing authority of the department of revenue or the board
4 of oil and gas conservation to make rules on the subject of
5 the provisions of this act is extended to the provisions of
6 this act.

7 NEW SECTION. Section 5. Effective date --
8 applicability. This act is effective on passage and approval
9 and applies to taxable years beginning after December 31,
10 1984.

-End-

FISCAL NOTE

In compliance with a written request received February 26, 19 85, there is hereby submitted a Fiscal Note for Senate Bill 462 pursuant to Title 5, Chapter 4, Part 2 of the Montana Code Annotated (MCA). Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

An act revising allowable deductions in determining oil and gas net proceeds for property tax purposes; defining "owner-operator" and "stripper well"; establishing starting points for the amortization of drilling costs and certain capital expenditures; and providing an immediate effective date and an applicability date.

ASSUMPTIONS:

1. Statewide taxable value - FY86 = \$2,397,311,000; FY87 = \$2,444,893,000.
2. University levy, 6 mills; school foundation program, 45 mills; average local levy, 80 mills; all school funding 60% of average weighted oil & gas levy, 131 mills.
3. Performance or indemnity bonds, \$10,000 (DNRC); Annual premium, \$100/year (USF&G Insurance Co.); 390 oil & gas companies.
4. Insurance: annual premium for fire, casualty, and liability insurance, \$200/well/year (Dye, Tavary & Judge Agency in Cutbank, MT); fire insurance ($\frac{1}{2}$ of annual premium already deductible).
5. Overhead: 6,718 producing oil & gas wells; 2,243 stripper wells (1984 Annual Petroleum Independent 1983 statistics).
6. Companies which must use proposed section 15-23-603 c(ii): 5,154 wells (Montana Oil Journal); average written operating agreement - \$6,000/well/year.
7. Estimated barrels of oil produced in FY1986, 28,341,000; average price/barrel = \$26.10 (OBPP). This is held constant and used as a proxy for CY1984 and 1985 production.
8. 10% of all oil produced in Montana comes from stripper leases (1984 Petroleum Independent).
9. 26,347,476 barrels of oil and 38,139,096 MCF of gas are produced by companies which must use the deduction in proposed section 15-23-603 c(ii) (Montana Oil Journal).
10. Using natural gas severance tax collections of \$3,650,000 in FY1986 and a price of \$2.48/MCF, 55,538,649 MCF will be produced in 1985 (OBPP & FY1984 county refund worksheets).
11. 35% of all gas leases which are certified under the federal Natural Gas Policy Act are stripper gas leases (Minerals Management Service certification list, Casper, Wyoming).

David L. Hunter

BUDGET DIRECTOR

Office of Budget and Program Planning

Date: March 4, 1985

FISCAL IMPACT:

	Under Current Law	<u>FY1986</u> Under Proposed Law	<u>Difference</u>	Under Current Law	<u>FY1987</u> Under Proposed Law	<u>Difference</u>
<u>EFFECT ON REVENUE</u>						
University Mill Levy	\$ 14,383,866	\$ 14,118,677	(\$ 265,189)	\$ 14,669,358	\$ 14,404,169	(\$ 265,189)
School Foundation Program	<u>\$107,878,995</u>	<u>\$105,890,077</u>	<u>(\$1,988,918)</u>	<u>\$110,020,185</u>	<u>\$108,031,267</u>	<u>(\$1,988,918)</u>
TOTAL REVENUE	\$122,262,861	\$120,008,754	(\$2,254,107)	\$124,689,543	\$122,435,436	(\$2,254,107)

AFFECT ON COUNTY OR OTHER LOCAL REVENUE OR EXPENDITURES:

The proposed bill would result in a loss of taxable value of approximately \$44,198,186.

The loss in revenue to local governments would be \$3,535,855 annually, (\$44,198,186 X .080). School funding is 60% of the total levy or \$3,473,977.

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PROPOSERS

Mr. Mike Stephens representing the Clerk and Recorders said this bill would allow a flexible system that would meet the requirements and needs.

OPPOSERS

None were heard.

Questions from the committee were called for.

Senator Brown was reassured that hard copy is run to back up the computer. Senator Neuman explained that in Cascade County the computer information is kept on duplicate discs and can also be reconstructed from a hard copy if necessary. Senator Hirsch said that back-up was required by law.

Mr. Gregg Groepper said that the bill would allow a saving of time and duplication.

Representative Nathe closed.

MOTION: Senator Goodover moved that HB 373 be concurred in. The motion carried unanimously. Senator Brown agreed to carry the bill on the Senate floor.

CONSIDERATION OF SB 234: Mr. Lear noted to the committee that there were problems with the applicability date and effective date of the bill that required clarification by amendment.

MOTION: Senator Severson moved that the committee reconsider its action on SB 234 in order to make the necessary amendment. The motion carried unanimously.

MOTION: Senator Severson moved that SB 234 be amended to insert necessary language on applicability and effective dates. The motion carried unanimously.

MOTION: Senator Severson moved that SB 234 do pass as amended. The motion carried unanimously.

CONSIDERATION OF HB 346: Brief discussion did not reach consensus and the Chairman directed the attention of the committee to the transmittal deadline for senate revenue matters.

CONSIDERATION OF SB 455: Senator Hirsch was prepared with numbers showing the impact to counties after amendment, but did not have the necessary language to insert a hold harmless clause into the bill.

Senator Towe asked that the Department of Revenue deliver those amendments to the committee as soon as possible.

CONSIDERATION OF SB 462: Senator Halligan asked Mr. Lear if he could work on a definition of administrative cost that would be acceptable.

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Senator Halligan said that some deductions ought to be allowed, but those in the nature of overhead should not be.

Senator Towe said that well head costs were the best because they were most easily defined. Senator Brown said that it pained him, but he had to agree with Senator Towe.

CONSIDERATION OF SB 367:

MOTION: Senator Halligan moved that SB 367 do pass. Senator Halligan said that the five percent rate is less than that of many states. He said that it would increase the average price of a room from \$1.50 to \$2.00. He said that no evidence had been presented that indicated this kind of legislation had a negative impact on the industry. He said local governments need the funding for basic necessities that are used by the folks who would be helping to pay the tax.

Senator Lybeck said that he agreed with what Senator Halligan was trying to do, but that the timing of this move was poor for the industry involved.

Senator Hirsch also spoke in opposition to the motion saying that if rooms were taxed for tourists the other parts of their dollar should also be tapped.

Senator McCallum expressed surprise at the amount of property tax paid by motels and hotels. Senator Halligan said those figures had be inflated by inclusion of all parts of a facility rather than separating out those taxes paid just on the rooms.

Senator Brown said that property taxes are too high and that local governments and school districts are dependent on those taxes. He said this bill, however, impacts his part of the state at the wrong time. He said go all the way with a sales tax, or let it go. In conclusion he said to Senator Halligan that he would reluctantly vote no on the motion realizing that a reluctant no counted as much as an enthusiastic one.

Senator Halligan closed saying that those who use services should help pay for them. He said this is no more than the cost of a drink. He said there would be no major impact on the budget of the industry as they are not going to pay the tax.

Question was called. Senators Hager, Halligan, Neuman and Towe voted yes. Senator Eck, who was absent at that time, asked to have her voted recorded as yes. Senators Brown, Goodover, Hirsch, McCallum, and Severson voted no. Senator Mazurek was excused for the vote. The motion failed.

MOTION: Senator Hager moved that SB 367 be tabled. The motion carried unanimously.

CONSIDERATION OF SB 455: Senator Hirsch presented the committee with numbers (Exhibit 5) that demonstrate the need for amendment to the bill. Exhibit 6 contains his proposed amendments as drafted by the Department of Revenue. Mr. Dave Woodgerd, Department of Revenue,

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

March 14, 1985

The forty-ninth meeting of the Senate Taxation Committee was called to order by Chairman Thomas E. Towe at 7:37 am in Room 413-415 of the Capitol Building.

ROLL CALL: Senator Neuman was absent. Senator Hager arrived at 7:50 am. Other committee members were present.

CONSIDERATION OF SB 462: Senator Halligan presented Exhibit 1 to the committee with amendments proposed for the bill. Mr. Don Hoffman of the Natural Resources Bureau of the Department of Revenue discussed the amendments. First, he said, the language referring to the "written operating agreement" would allow major oil companies to deduct non-site administrative expenditures. Second, the percentage deduction in the bill had no basis and the Department believed it was too high. Third, vehicle deductions are clarified by the amendments. Fourth, insurance problems will be simplified by adding liability and casualty insurance as deductible items. Fifth, the performance bond has a nominal cost and does not significantly affect the revenue picture. Mr. Hoffman said the fiscal impact of the bill is reduced by these amendments to about \$90,000.

MOTION: Senator Halligan moved that SB 462 be amended per Exhibit 1. Discussion clarified the timing of the deductions and that the fiscal impact comes in changes with vehicles, insurance and performance bonds.

Mr. Hoffman discussed the methodology of the fiscal note. He said that state and local taxes were included in that \$90,000 figure, about 30 to 40 percent of which would come to the state.

Senator Eck asked if these were changes in existing policy. Mr. Hoffman said that the vehicle deduction had always been allowed, but that the performance bonds and insurance items had previously been disallowed. He said this would be simpler for all concerned as there would be no need to allocate the insurance for fire separately.

Question was called and the motion carried unanimously. Consensus of the committee was that if Senator Gage would agree to the amendments the bill would be reported out.

CONSIDERATION OF SB 431: Amendments to the bill were presented in Exhibit 2. Senator Eck had to leave the committee so further discussion was delayed.

CONSIDERATION OF SB 465: Senator Fred Van Valkenburg, Senate District 30, was recognized as chief sponsor of the bill. He said that SB 465 was a result of his work on the Long Range Planning Subcommittee. He said that in mid-January that committee had heard requests for new buildings and major maintenance for the six campuses. He said that currently there is simply insufficient cash to handle these needs.

Amend SB 462, introduced copy.

1. Title, lines 6 and 7.

Following: "PURPOSES:" on line 6

Strike: "DEFINING "OWNER OPERATOR" AND "STRIPPER WELL";"

2. Title, line 9.

Following: "SECTIONS"

Strike: "15-23-601"

Following: "15-23-603"

Strike: ", "

3. Page 1, line 25 through line 22, page 2.

Strike: line 25, page 1 through line 22, page 2 in its entirety

Renumber: subsequent sections

4. Page 3, line 1.

Following: "producer."

Strike: "The term does not include stripper well."

5. Page 3.

Following line 18

Insert: "labor,"

6. Page 3, line 19.

Following: "machinery"

Insert: ", "

7. Page 3, line 21 through line 24.

Strike: subsection (c) in its entirety

Renumber: subsequent sections

8. Page 4, line 14.

Following: "insurance"

Insert: "directly attributable to the operation and development of the well"

9. Page 4, line 21 through line 20, page 5.

Strike: subsection (h) in its entirety

Renumber: subsequent subsection

10. Page 6, line 8

Following: "~~thereof~~"

Insert: ", and such expenditures may not include the salaries or any portion thereof of any person or officer not actually engaged in the working of the well or superintending the management thereof"

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Montana State University. He said that he was not an opponent or a proponent, but there to provide information to the committee. The research from which he extrapolated his testimony is found in Exhibit 4.

The committee indicated concern about the impact of this legislation on the cattle breeder, but concluded that it would not hurt cattlemen.

Senator Christiaens closed saying the bill is good for home owners, good for farmers and good for the state. He said the bookkeeping difficulties are not so great. He said the bill is very equitable and would have a long-term benefit to businesses in Montana.

CONSIDERATION OF SB 462: Senator Gage was recognized. He said that he had discussed the changes made by the committee to SB 462 with the industry and they could live with the bill in its current form. He suggested that additional clarification of the definition of well-head work and the drilling property generally might be necessary.

MOTION: Senator Halligan moved that SB 462 do pass as amended.
The motion carried unanimously.

CONSIDERATION OF SB 390: Mr. Hoffman, speaking for the Department, and Mr. Jerry Anderson, speaking for the industry, informed the committee that they had discussed the different methods of figuring the effective taxation rate on oil and gas production. They had agreed on the figure of 7 percent for oil. Mr. Anderson said that is "higher than we feel the amount should be, but we will do that if other taxation things stay static." He said they had agreed to 11 percent on natural gas with the provision that either could adjust that in the House if necessary. They had agreed to work on that number before the House hearing.

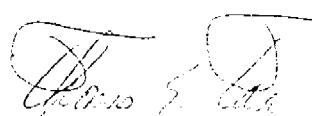
Senator Mazurek thanked them for working out a compromise.

Senator Tom Keating was recognized and said the issue was not what the effective taxation rate should be, but whether Montana wanted to encourage the outside investment dollar to be competitive with other states. He said the oil industry in Eastern Montana has lost 4,000 primary jobs. He compared this rate to surrounding states and said that with other taxes figured in it is too high.

MOTION: Senator Mazurek moved that SB 390 be amended to make the effective taxation rate on oil, 7 percent; on gas, 11 percent. The motion carried unanimously.

MOTION: Senator Mazurek moved that SB 390 do pass as amended.
The motion carried unanimously.

Chairman Towe adjourned the meeting at 10:02 am.


Chairman

STANDING COMMITTEE REPORT

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MR. PRESIDENT

We, your committee on Taxation

having had under consideration Senate Bill No. 462

first reading copy (white)
color

RELATING TO DEDUCTIONS ALLOWED IN DETERMINING OIL AND GAS
NET PROCEEDS.

Respectfully report as follows: That Senate Bill No. 462

be amended as follows:

1. Title, lines 6 and 7.

Following: "PURPOSES;" on line 6

Strike: "DEFINING "OWNER OPERATOR" AND "STRIPPER WELL";"

2. Title, line 9.

Following: "SECTIONS"

Strike: "15-23-601,"

Following: "15-23-603"

Strike: ",,"

3. Page 1, line 14 through line 1, page 3.

Following: line 13

Strike: Section 1 in its entirety

Renumber: subsequent sections

4. Page 3, line 19.

Following: line 18

Insert: "labor,"

Following: "machinery,"

Insert: ",,"

5. Page 3, line 21 through line 24.

Strike: subsection (c) in its entirety

Renumber: subsequent subsections

6. Page 4, line 14.

Following: "insurance"

XXXXXX

XXXXXXXXXX

continued

Chairman.

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1985

Insert: "directly attributable to the operation and development of the well"

7. Page 4, line 20.

Following: ";

Insert: "and"

8. Page 4, line 21 through line 20, page 5.

Strike: subsection (h) in its entirety

Renumber: subsequent subsection

9. Page 6, line 8.

Following: "thereof"

Insert: ", and such expenditures may not include the salaries or any portion thereof of any person or officer not actually engaged in the working of the well or superintending the management thereof"

AND AS AMENDED
DO PASS

.....
Senator Thomas E. Towe, Chairman



MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE
HOUSE OF REPRESENTATIVES

March 26, 1985

The forty-ninth meeting of the Taxation Committee was called to order in room 312-2 of the state capitol by Chairman Gerry Devlin at 8:02 a.m.

ROLL CALL: All members were present as were Dave Bohyer, Researcher for the Legislative Council, and Alice Omang, secretary.

CONSIDERATION OF HOUSE BILL 848: Representative Remirez stated that this is a bill addressing property tax indexing and it has a very expensive fiscal note and he thought they had enough problems with property tax reclassification and recommended that the committee table this bill.

PROPOSERS: There were none.

OPPOSERS: There were none.

QUESTIONS ON HOUSE BILL 848: There were none.

EXECUTIVE SESSION:

DISPOSITION OF HOUSE BILL 848: Representative Iverson moved that they TABLE this bill. The motion carried with Representative Patterson voting no.

CONSIDERATION OF SENATE BILL 462: Senator Gage informed the committee that this bill, which would revise the allowable deductions in determining oil and gas net proceeds for property tax purposes, will help the Department of Revenue in administering the net proceeds law and he explained the bill.

PROPOSERS: Marc Buyske, representing the Montana Oil and Gas Association, stated that this bill, in its present form, will eliminate some areas of contention between the small operators and the Department of Revenue. He indicated that they would have preferred the bill to have been adopted in its original form, but they will accept the changes.

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There were no further proponents.

OPPONENTS: There were none.

QUESTIONS ON SENATE BILL 462: Representative Asay asked about the fiscal note and Senator Gage indicated that the biggest supposition that the Department of Revenue made in building this fiscal note was #6, which was the cost in an operating agreement and their contention was that every operator of 5,154 wells would enter into an operating agreement, which would say that they will charge them \$500.00 a month to operate the well and he thought that was ridiculous. He continued that every owner of a local well is not going to enter into an operating agreement to begin with and certainly are not going to enter into a \$500.00-a-month one.

Representative Asay asked for the response from the Department of Revenue.

Don Hoffman, representing the Department of Revenue, stated that the way the bill was drafted, it talked about an operating agreement and then went on to say that in lieu of that operating agreement, the operators could take 10% or 25% of the cost depending on the type of well as an allowance for clerical and office and managerial costs. He explained that because of the language on page 2, line 5, they felt that many of the operators would be trying to deduct for their out-of-state offices and this is something that they are continually discussing with the major producers in the state of Montana.

Chairman Devlin asked if this would be more or less of a wash with these amendments.

Mr. Hoffman answered that they estimated that the fiscal impact of the bill would be about \$90,000.00 in taxes statewide.

Chairman Devlin asked about the local property taxes and Mr. Hoffman replied that that is included - some would be for local government and some for the foundation program.

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Representative Williams asked how this compares with the procedure they had been using before this bill was introduced.

Mr. Hoffman replied that they attempted not to allow the bonds and other types of insurance, but, as far as the insurance was concerned, they were always trying to figure out what portion of the policy was for fire and what portion was for casualty. He explained that, as far as the vehicles go, that is basically a clarification and they have been attempting to do that all along.

Representative Sands asked in section 2, page 6, how they basically were doing this before.

Mr. Hoffman responded that in the past, they, particularly with the way the law was written, required that the amortization period would begin when that well became a producible well but not necessarily hooked up to a distribution system and if it could be hooked up, then the amortization period would begin at that time.

Representative Sands asked if they would pay if they were not hooked up to a natural gas system and were not pumping into a tank and were basically capped.

Mr. Hoffman answered no - that this was talking about the deduction of drilling costs and capital expenditures and, under a normal situation, drilling costs and capital expenditures are amortized over a ten-year period on a straight-line basis. He explained that the amortization period would begin when that well became producible.

Senator Gage advised that each year stands on its own and that they cannot carry costs from one year to another and if they have an operating loss, that is tough.

There were no further questions.

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Senator Gage concluded by saying that this bill does clarify some situations and the operator has the elective to amortize over 10 years or 2 years, whichever he chooses.

The hearing on this bill was closed.

CONSIDERATION OF HOUSE BILL 410: Representative Harp, District 7, Kalispell, stated that this bill was introduced early in the session and was a safety valve if things did not occur during the session. He explained that there are certain properties in class 11 that are presently being taxed at 15% and are being treated inequitably. He continued that he is asking for a reduction in that class from 15% to 12% and this basically affects telephone lines and pipe lines.

PROPOSERS: Jim Hughes, representing Mountain Bell, informed the committee that if a telephone pole is being used by them, it is taxed at 15%; if hanging on a power line, it is taxed at 12%; if a cooperative, it would be 4% and if you put it along a railroad line for their own telecommunications, it would be taxed at a different rate. He indicated that this would not solve all the problems but it is designed to take care of the serious problem of class 11.

John McDonald, representing the Northwestern Telephone System, Kalispell, told the committee that they appear in support of this bill and they definitely agree with what Mr. Hughes offered.

Mike Zimmerman, representing the Montana Power Company, stated that they felt that the telephone property rate should be the same as the natural gas property rate and the electricity companies rate.

Gregg Groepper, Administrator of the Property Assessment Division of the Department of Revenue, testified that the concept that is suggested in this bill is what they have strongly recommended and the Revenue Oversight Committee came to that conclusion also.

V

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Representative Williams moved that they TABLE this bill. The motion carried with Representative Sands, Representative Ellison, Representative Iverson, Representative Patterson, Representative Asay and Representative Keenan voting no.

DISPOSITION OF SENATE BILL 330: Representative Harp moved to TABLE the bill by the request of the sponsor. Representative Harp then withdrew his motion as some of the members wanted to discuss this bill and a motion to table is nondebatable. There was very little discussion and Representative Harp moved to TABLE this bill again. The motion carried with Representative Cohen voting no.

DISPOSITION OF SENATE BILL 461: Representative Williams moved that this bill DO PASS. The motion carried unanimously. Representative Ellison indicated that he would carry the bill on the floor of the house.

DISPOSITION OF SENATE BILL 462: Representative Switzer moved that this bill BE CONCURRED IN. Representative Patterson explained that the fiscal note with the bill is now void and the total fiscal cost now is around \$90,000.00 and that is for local and state a year.

A vote was taken on the motion and all voted aye with the exception of Representative Williams, Representative Raney, Representative Keenan, Representative Zabrocki and Representative Cohen, who voted no. Representative Switzer will carry this bill on the floor of the house.

DISPOSITION OF SENATE BILL 465: Representative Patterson moved that this bill BE NOT CONCURRED IN. He said that he felt they were setting a bad precedent with this bill in earmarking money and he thought it should all go to the general fund. He also observed that they would have no control over these funds.

There was some discussion and Representative Williams moved to TABLE this bill on a substitute motion. The motion carried unanimously.

DISPOSITION OF HOUSE BILL 926: Representative Keenan distributed to the committee some proposed amendments. See Exhibit 14. She moved the adoption of these amendments. She explained that this amendment addresses those

STANDING COMMITTEE REPORT

March 26, 1955

MR. SPEAKER:

We, your committee on TAXATION

having had under consideration SENATE Bill No. 462

third reading copy (blue color)

RELATING TO DEDUCTIONS ALLOWED IN DETERMINING OIL AND GAS NET PROCEEDS,

Respectfully report as follows: That SENATE Bill No. 462

BE CONCURRED IN

DO PASS